INVESTOR'S CHAMPION

INDEPENDENT SMALL CAP SHARE COMMENT

SECURITY RESEARCH GROUP PLC

8th January 2015

Delisting…for all the right reasons!

www.srgroupplc.com

Security Research Group PLC ('SRG') was previously quoted on AIM and delisted on 30th December 2014 at which time the share price was 42.5p valuing the entire company at approximately £8.2m.

We were supportive of the proposed delisting and explain our thoughts below.

Despite little evident use for a listing, many AIM companies often continue to remain on the market, incurring high costs and wasting shareholder's money.

The decision of SRG will hopefully be of material benefit to remaining shareholders over the coming months.

- Background

SRG is a diverse group of companies consisting of:

- Specialist Electronics: An electronics design and manufacture division specialising in innovative applications of harmonic radar and mobile communications (Audiotel International Limted)

- PSG: A legal services division that supplies property information used in the home and commercial property buying process (PSG Franchising Limited)

- M&B: A specialist packaging division supplying bespoke packaging solutions (Moore & Buckle (Flexible Packaging) Limited)

- Reasons for delisting

On 26th November 2014 the Company issued an announcement outlining the reasons behind the proposed cancellation of Admission to AIM. In this announcement management explained that, in their opinion, the best available route for Shareholders is for the Company to pursue a strategy of disposing of each of the above businesses, with the intention of distributing or returning to shareholders surplus cash over the next three years. The Company is not looking to make further acquisitions, hence it has no need to raise further capital or to issue further Shares – the Company has previously cancelled a significant percentage of its equity via a tender offers (see below).

Therefore the Company's main purpose for being admitted to trading on AIM has fallen away and, as a result, the Directors quite rightly felt it was no longer beneficial for shareholders for the Company to continue to incur the direct and indirect costs of its shares being admitted to trading on AIM.

We are totally in favour of this course of action which will be of maximum benefit to 'existing' shareholders.

- Reduced costs

Following Cancellation, head office costs will be substantially reduced benefitting group profitability and ensuring a maximum return of cash to Shareholders. In this regard it is worth noting that Director's remuneration totalled £449k in 2014 and with a slimmed down board is likely to be substantially less going forward. The Company will also no longer need to have a nomad and broker and can do away with a costly London head office.

- Results for 6 months to 30th September 2014

For the 6 months to 30th September 2014 Group revenue was £5m and profit before taxation £798,000 (2013: £219,000).

The divisional split at the operating level for 6 months was as follows:

Specialist Electronics achieved an operating profit £274,000 (2013: £7,000),

Property Information Services (PSG) operating profit £598,000 (2013: £368,000).

M&B's operating profit £169,000 (2013: £123,000).

Trading figures for Specialist Electronics were substantially lower than for the recent periods which benefited from the one-off £50m Ministry of Defence contract which concluded in December 2012.

Management commented how the outlook for PSG has improved substantially with the support of increased volume of house sale transactions and improvements in the operational structure

M&B continues to plod along generating plenty of cash.

Net assets at 30th September 2014 were £10m of which Cash represented £3.6m.

- Substantial Distribution on the cards

The Directors have already suggested there will be a payment to shareholders of 15p per share in April 2015 which will consume approximately £3m and equate to 35% of the value of the entire business at the time of delisting

- Returns to date

Following the appointment of current Chief Executive Jonathan Mervis, 8,000,000 Shares were issued on 15th February 2006 at a price of 50p per share, immediately following which the Company's market capitalisation was approximately £15m.

Since then the Company has returned approximately £18m to shareholders by way of three tender offers without raising any additional equity capital. This represents a return on capital of approximately 120% to date.

- Significant shareholders

It is worth noting that Chief Executive Jonathan Mervis owns 14.47% of the equity and various investment vehicles under the 'control' of Bob Morton (Hawk Investment Holdings Limited, Groundlinks Limited and Serraffina Holdings Ltd) hold a combined 39.38%.

- What value can be placed on the existing businesses?

Specialist Electronics

It is very hard to put a value on this business despite the significant (£50m) MoD contract of the past which supported a material return to shareholders and boosted the cash coffers. It clearly possesses some terrific technology, however this needs time to commercialise.

For the other 2 business we simply focus on cash flow which we have analysed over the past 6.5 years.

Property Information Services (PSG)

Combined 'free cash flow' for this business alone over the past 6.5 years was £1.3m averaging approximately £200k per annum, even during periods of significant capital investment (Total approx. £1.7m).

Free cash flow in 2014 was £667k and for the 6 months to 30th September 2014 £598,000

The outlook for this business looks extremely positive and it is clearly benefiting from the investment put in over the past few years.

We estimate that free cash flow should continue to be extremely strong and either returned to shareholders or be of interest to an acquirer.

Moore & Buckle Packaging (M&B)
The packaging business has delivered consistent returns with aggregate free cash flow over the past 6.5 years of £1.7m equating to approximately £266,000 per annum. This business requires very little investment which has averaged only £14,000 per annum over this period.

PSG and M&B should deliver a combined free cash flow well in excess of £1m for the year ending March 2015 and a similar level next year. This equates to a highly attractive free cash flow yield of 12% (FCF yield for Apple is only approx. 8%) based on the delisted value of the business which could then go towards supporting a significant distribution, should the desired acquirers not be appear.

We are of the opinion that remaining shareholders could be extremely well rewarded over the coming months

An interesting tale!

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